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**CITY OF CALISTOGA, CALIFORNIA**  
**Reports on Internal Control, Compliance, and**  
**Federal Awards Programs**  
**For the Fiscal Year Ended June 30, 2009**

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**CITY OF CALISTOGA, CALIFORNIA**  
**Reports on Federal Awards Programs**  
**June 30, 2009**

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**Terry E. Krieg, CPA**  
Certified Public Accountant

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Honorable Mayor and Members  
of the City Council  
City of Calistoga  
Calistoga, California

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calistoga, California as of and for the year ended June 30, 2009, which collectively comprise the City of Calistoga, California's basic financial statements and have issued my report thereon dated March 20, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the City of Calistoga, California's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Calistoga, California's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Calistoga, California's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

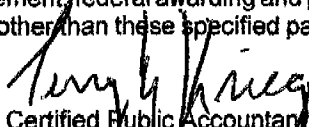
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Calistoga, California's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the City Council, Management, federal awarding and pass-through entities, and is not intended to and should not be used by anyone other than these specified parties.

March 20, 2010

  
Certified Public Accountant



**Terry E. Krieg, CPA**  
Certified Public Accountant

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Honorable Mayor and Members  
of the City Council  
City of Calistoga, California

Compliance

I have audited the compliance of the City of Calistoga, California, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Calistoga, California's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Calistoga California's management. My responsibility is to express an opinion on the City of Calistoga, California's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Calistoga, California's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the City of Calistoga, California's compliance with those requirements.

In my opinion, the City of Calistoga complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Calistoga, California is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered the City of Calistoga, California's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect's the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

*Schedule of Expenditures of Federal Awards*

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Calistoga, California, as of and for the year ended June 30, 2009, and have issued my report thereon dated March 20, 2010. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Calistoga, California's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the City Council, management and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

March 20, 2010

  
Certified Public Accountant

**CITY OF CALISTOGA, CALIFORNIA**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ended June 30, 2009**

<u>Federal Agency</u>	<u>Federal CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>			
<b>Pass-Through Program From:</b>			
<i>California State Department of Housing and Community</i>			
<i>Development:</i>			
HOME Investment Partnerships Program:			
Palisades Apartments	14.239	07-HOME-3063	\$ 1,829,632
			<u>1,829,632</u>
Total U.S.Department of Housing and Urban Development Pass- Through Programs			<u>1,829,632</u>
 <b>U.S.Department of Agriculture:</b>			
<b>Direct Program From:</b>			
<b>Rural Utilities Service:</b>			
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	1,000,000
			<u>1,000,000</u>
Total U.S.Department of Agriculture Direct Programs			<u>1,000,000</u>
 <b>U.S.Department of Homeland Security:</b>			
<b>Federal Emergency Management Agency:</b>			
<b>Pass-through Program From:</b>			
<i>California Emergency Management Agency:</i>			
Pre-Disaster Mitigation Program	97.047	#2007-1004	52,774
			<u>52,774</u>
Total U.S.Department of Homeland Security Pass-Through Programs			<u>52,774</u>
 Total Expenditures of Federal Awards			 <u>\$ 2,882,406</u>

See notes to schedule of expenditures of federal awards

**CITY OF CALISTOGA, CALIFORNIA**  
**Notes to Schedule of Expenditures**  
**of Federal Awards**  
**June 30, 2009**

**Note 1. Summary of Significant Accounting Policies**

*Basis of Accounting.* The schedule of expenditures of federal awards is presented on the modified accrual basis of accounting. Under this basis, revenues are recognized when grant eligible reimbursement requirements have been satisfied by the City, and expenditures are recognized when the related fund liability is incurred.

**Note 2. Direct and Pass-through Programs**

Direct programs represent programs where the grantor federal agency remits federal funds direct to the City. Pass-through programs represent programs where the grantor federal agency remits funds to another government agency and that agency enters into a sub-recipient agreement with the City of Calistoga and then reimburses the City with federal grant funds.



**CITY OF CALISTOGA, CALIFORNIA**  
**Schedule of Findings and Questioned Costs**  
**For The Fiscal Year Ended June 30, 2009**

**SECTION I - SUMMARY OF AUDITOR'S RESULTS**

**A. Financial Statements:**

1. Type of Auditor's report issued:	<u>Unqualified</u>		
2. Internal control over financial reporting:			
Material weakness identified?	Yes	<u>X</u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes	<u>X</u>	None reported
Noncompliance material to the financial statements noted?	Yes	<u>X</u>	No

**B. Federal Awards:**

1. Internal Control Over Major Programs:			
Material weakness identified?	Yes	<u>X</u>	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes	<u>X</u>	None reported
2. Type of auditor's report issued on compliance for major programs:			
<u>Unqualified</u>			
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133			
	Yes	<u>X</u>	No
4. Identification of major programs:			
14.239	HOME Investment Partnerships Program		
10.760	Water and Waste Disposal Systems for Rural Communities		
5. Dollar threshold used to distinguish between type A and type B programs			
			<u>\$300,000</u>
6. Auditee qualifies as low-risk auditee			
	Yes	<u>X</u>	No

**CITY OF CALISTOGA, CALIFORNIA**  
**Schedule of Findings and Questioned Costs**  
**For The Fiscal Year Ended June 30, 2009**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.